Police and Fire Retirement System of the City of Detroit

Financial Report

with Supplemental Information

June 30, 2008

Police and Fire Retirement System of the City of Detroit

Contents

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Board of Trustees
Police and Fire Retirement System
of the City of Detroit

We have audited the accompanying statement of plan net assets of the Police and Fire Retirement System of the City of Detroit (the "System") as of June 30, 2008 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2007 financial statements and, in our report dated December 21, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Police and Fire Retirement System of the City of Detroit as of June 30, 2008 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Police and Fire Retirement System
of the City of Detroit

As explained in Note 3, the financial statements include investments valued at approximately $1,014,000,000 (25 percent of net assets), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on various methods which may include information provided by investment managers, general partners, real estate advisors, and other means.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Police and Fire Retirement System of the City of Detroit's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The statement of changes in plan net assets by fund included in other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 11, 2008

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required and other supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by sections of required and other supplemental information that further explain and support the information in the financial statements.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the two prior years:

	Fiscal Year Ended		
	June 30, 2008	June 30, 2007	June 30, 2006
Total assets	$ 4,992,704,319	$ 5,611,982,265	$ 5,255,680,053
Total liabilities	1,018,055,585	1,130,632,364	1,220,295,825
Assets held in trust for pension benefits	**$ 3,974,648,734**	**$ 4,481,349,901**	**$ 4,035,384,228**
Net investment (loss) income	$ (300,049,097)	$ 644,201,339	$ 381,669,729
Contributions:			
Employee	10,299,360	10,043,736	10,007,531
Employer	41,113,934	57,423,366	57,807,332
Total contributions	51,413,294	67,467,102	67,814,863
Benefits paid to members and retirees:			
Retirees' pension and annuity benefits	231,623,462	225,249,848	217,411,446
Member annuity refunds and withdrawals	22,304,141	36,708,695	22,244,391
Total benefits paid	253,927,603	261,958,543	239,655,837
Benefits paid in excess of contributions	(202,514,309)	(194,491,441)	(171,840,974)
Ratio of benefits paid to contributions	4.9	3.9	3.5
Other expenses	4,137,761	3,744,225	3,399,285
Net (decrease) increase in net assets	**$ (506,701,167)**	**$ 445,965,673**	**$ 206,429,470**

Fund Overview, Membership, Governance

The Police and Fire Retirement System of the City of Detroit (DPFRS or the "System") is a defined benefit pension plan and defined contribution plan. DPFRS exists to pay benefits to its active members, retirees, and beneficiaries. Active members earn service credit that entitles them to receive benefits in the future. Both the employer (the City of Detroit) and active members contribute to the System.

DPFRS is a relatively mature plan in that there are more retirants and beneficiaries receiving current benefits than active members. As of June 30, 2008, membership of the System consisted of 4,179 active members plus 8,510 members receiving benefits plus 24 terminated plan members entitled to, but not yet receiving, benefits.

DPFRS is governed by an 11-member board of trustees (the "Board"). Six members of the Board are elected by the active membership to serve three-year terms. Expirations of terms of elected trustees are staggered. Five members serve ex-officio, these members being the mayor of the City of Detroit (or designee), the city treasurer (or deputy treasurer), one representative from the Detroit City Council, the chief of police (or designee), and the fire commissioner (or designee).

Contributions to the System

Both the City of Detroit (employer) and active employees make regular contributions to the System. Basic pension and disability benefits are funded through employer and employee contributions plus investment earnings on those contributions.

The required employer contributions are determined by the System's actuaries using the entry age normal cost method. Assumptions used by the actuaries are subject to experience testing every five years.

Active employees contribute 5 percent of pay up to the date at which they are eligible for retirement. Employee contributions are maintained in separate accounts in the defined contribution plan (annuity savings fund) solely for the benefit of the contributing employee. Employee annuity savings fund accounts are credited with investment earnings equal to the rate of return earned by the System subject to a minimum earnings of zero percent. An active employee may elect to withdraw his or her accumulated contributions plus investment earnings once he or she is eligible for retirement.

In June 2005, the City of Detroit (employer) elected to issue pension obligation certificates and contribute approximately $631 million to the System. The investment results with respect to these funds has been favorable. DPFRS total investment income on these contributions through the end of the current year has been $187 million in the aggregate or approximately 30 percent of the total contribution amount. Investment income in excess of the actuarial assumed rate (7.8 percent) through the end of the current year has been $78 million or 12 percent of the total contribution amount. Investment income in excess of the interest expense incurred by the employer through the end of the current year has been $118 million or 19 percent of the total contribution amount.

Benefits Paid

The System exists to pay the benefits which its members have earned. DPFRS paid out $254 million in benefits during the year consisting of $232 million in benefits to retirees and beneficiaries plus $22 million in refunds of annuity savings fund balances. This represents approximately 6 percent of the net assets of the System as of June 30, 2008. Employer and employee contributions were $51 million or 1 percent of the assets of the System. The excess of benefits over contributions are funded through investment income. The public capital markets represent the primary source of opportunities to earn investment income.

Asset Allocation

The Board believes that the principal determinant of total fund investment performance over long periods of time is asset allocation. The DPFRS asset allocation is built upon the foundation that the obligations of DPFRS to pay the benefits promised to its members are very long-term obligations. Accordingly, the Board must make investment decisions that it believes will be the most beneficial to the System over many years, not just one or two years. The Board must also balance the desire to achieve long-term gains with the requirements of having to raise the cash to fund significant benefit payments every month.

DPFRS has established asset allocation policies which are expected to deliver more than enough investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the Board's asset allocation as of June 30, 2008:

Equities	56.0%
Fixed income	27.5%
Real estate	7.0%
Alternative investments	8.0%
Cash reserves	1.5%

At year end, DPFRS was above its target asset allocation for real estate, fixed income, and cash but below its target for equities and alternative investments.

State statutes impose limitations on what fraction of the total assets of the System may be invested in assets other than government bonds, investment grade bonds, and certain mortgages. The Board's asset allocation policies comply with these limitations.

Investment Results

Effective with the fiscal year commencing July 1, 2003, DPFRS acquired the capability to calculate investment results on an AIMR-compliant, time-weighted, GIPS method basis. This capability is utilized to calculate investment results at the total fund composite, asset class composite, managed account, sector, and individual security level. Investment results calculated for prior periods at the total fund composite level reflected dollar-weighted returns consistent with the methods utilized by the System's actuaries. Returns presented herein have been determined using the AIMR-compliant, time-weighted, GIPS method unless explicitly stated to the contrary. All returns for periods of one year or greater have been annualized.

Effective with the fiscal year commencing July 1, 2003, DPFRS acquired access to the Trust Universe Comparison Service (TUCS). TUCS is a collection of institutional investor master trusts represented by corporate pension plans, public funds, Taft-Hartley accounts, nonprofits, foundations, and endowments. Within TUCS, 677 master trusts inclusive of 137 public funds reported investment results for the year ended June 30, 2008. DPFRS considers the public fund segment of TUCS to be its peer group for purposes of comparative investment results at the total fund composite level. DPFRS compares the investment results of its asset-class level composites and individual investment managers against corresponding composite and account level returns reported by TUCS for all master trusts. Any references to "peer group" contained herein shall be in the context of the foregoing unless explicitly stated to the contrary. Ranking within peer group is reported on the scale of 1 being best and 99 being worst.

Total Fund Composite

The DPFRS total fund composite return for the year was (6.3) percent. On a relative basis the System under-performed both the median public fund and its benchmark objective for the year as shown below.

DPFRS	(6.3)
Benchmark Objective	(5.6)
Median Public Fund	(4.5)
Peer Group Ranking	81

Although negative returns are disappointing, periods of negative returns are nevertheless inevitable in the context of the System's allocation to equities. This year follows five consecutive years of positive investment returns for the fiscal years ended June 30 as shown below:

2007	17.4
2006	11.5
2005	8.2
2004	15.0
2003	6.6

The total fund composite return for the year was significantly below the actuarially assumed rate of 7.8 percent. This was the first year of unfavorable investment experience versus the actuarially assumed rate after four consecutive years of favorable investment experience versus the actuarially assumed rate.

The following reflect the performance of DPFRS over longer periods of time versus its public fund peer group

	Trailing 2 Years	Trailing 3 Years	Trailing 4 Years	Trailing 5 Years
DPFRS	4.9	6.6	7.0	8.5
Median Public Fund	5.5	6.6	7.2	8.9
Peer Group Ranking	62	49	57	56

The following is a summary of the composite investment performance of the major asset classes.

Equities	(12.5%)
Fixed income	3.4%
Real estate	10.1%
Cash	5.3%
Alternative investments	(17.4%)

Equities

The equity assets consist of a combination of separately managed accounts distributed 70 percent to domestic stocks and 30 percent to international stocks. Within the equity composite, 40 percent of the assets are managed using passive strategies designed to replicate the portfolio represented by a widely recognized broad stock market average with the remaining 60 percent of the assets actively managed.

Domestic equity assets are diversified by market capitalization (large, mid, small) and style (growth, value) in 16 managed accounts. International equity assets are diversified by market capitalization (large, small) in six managed accounts.

The overall equity composite return was (12.5) percent. The following is a summary of the performance of the equity composite and its major components versus the broad stock market averages and peer groups.

Overall Equity Composite	(12.5%)
Peer Group Ranking	61
Domestic Equity Composite	(12.9%)
Russell 3000 Index	(12.7%)
S&P 500 Index	(13.1%)
Peer Group Ranking	55
International Equity Composite	(11.5%)
MSCI EAFE (net)	(10.6%)
Peer Group Ranking	68

Domestic equities under performed their objective (Russell 3000). This was primarily attributable to the under performance of the small cap active managers versus their benchmarks coupled with the relative over-weighting of small cap equity in the domestic equity asset allocation.

International equities under performed their objective (MSCI EAFE). This was primarily attributable to the under performance of the one of the large cap active managers plus the relative under-performance of the international small cap accounts.

During the prior fiscal year, the Board had made but not funded an allocation to emerging markets equities. The Board has deferred the funding of this allocation indefinitely.

Fixed Income

All of the System's fixed income assets are actively managed. Fixed income managers have specific mandates, these mandates being government bonds, corporate bonds, mortgages, convertible bonds, and high yield bonds. Substantially all fixed income assets are from domestic issuers. Fixed income accounts are permitted to hold foreign securities but the securities must be U.S. dollar denominated.

The DPFRS fixed income composite return was 3.4 percent. This return ranked in the bottom quartile of its peer group and under-performed the median fixed income fund (6.1 percent) by 270 basis points. The fixed income composite returns were adversely impacted by exposure to corporate bonds in general and high yield bonds in particular. The following is a summary of the performance of the fixed income composite and its major components versus the broad bond market averages.

DPFRS Overall Fixed Income Composite	3.4%
DPFRS Government Bond Composite	9.4%
DPFRS Corporate Bond Composite	2.1%
DPFRS Convertible Bond Composite	(2.9%)
DPFRS Mortgage Composite	7.2%
DPFRS High Yield Bond Composite	(0.7%)
Lehman Aggregate Index	7.1%
Lehman Government Index	9.7%
Lehman U.S. Credit (corporate bonds) Index	3.8%
Merrill Lynch Convertible Bond Index	3.2%
Lehman Mortgage Index	7.8%
Credit Suisse High Yield Bond Index	(2.1%)

Government bonds marginally under performed their objective as a result of the maintenance of a shorter than benchmark duration in the account. The Board uses the government bond account as a very low-risk source of liquidity and minimizes its principal risk by maintaining a shorter duration. If the securities lending income attributable to the government bond account had been added to its return then the account would have out-performed its objective.

Corporate bonds under-performed their objective as a result of investment guidelines permitting the inclusion of up to 15 percent below investment grade securities in the portfolio. The average rating agency credit quality of the corporate bond composite was never less than A during the year.

Convertible bonds under-performed versus their benchmark primarily because of the under-performance of the high yield convertible bonds in the portfolio. Weak equity market returns drove down prices of and returns achieved from convertible bonds.

The DPFRS mortgage composite consists primarily of AAA rated mortgage-backed securities issued by the Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and Government National Mortgage Association (Ginnie Mae) plus privately placed mortgages underwritten by the Board's real estate advisors. Investment guidelines permit the inclusion of collateralized mortgage obligations (CMOs) but only in relatively small amounts. Privately placed mortgages are loans secured by a first lien on commercial real estate, have a loan to value of 80 percent or less, and an underlying borrower rating agency equivalent credit profile of A or better.

DPFRS investment guidelines do not permit "sub-prime" mortgages. These restrictions apply to any underlying securities within securitized investment products such as pass-through certificates, structured investment vehicles, collateralized loan obligations, and the like.

The DPFRS real estate portfolio consists of both separately owned and managed properties as well as investments in real estate investment trusts and real estate commingled funds. The portfolio is broadly diversified by property type and geographic location. Essentially all of the DPFRS real estate portfolio is located in the United States.

Separately owned properties are appraised every three years by an independent nationally recognized appraisal firm. Newly acquired properties are carried at cost until they are appraised, normally three years after acquisition.

Just over 80 percent of the portfolio consists of core property investments with the balance consisting of non-core investments. Core investments are those whose return is primarily derived from current income, whereas non-core investments are those whose return is primarily derived from appreciation in value.

The DPFRS real estate composite return was 10.6 percent. This return ranked in the top quartile of its peer group. This return also exceeded the broad domestic real estate market, as measured by the NCREIF Property Index (NPI) which returned 9.2 percent.

Performance of the overall U.S. institutional grade real estate market was dominated by income. Roughly 60 percent of the total return of the NPI was attributable to income with 40 percent of the return attributable to appreciation. Performance of the DPFRS real estate composite versus the NPI benefited from the bias toward core properties.

Alternative Investments

The DPFRS alternative investment portfolio consists of both individually managed investments as well as investments in commingled funds. The portfolio is diversified by investment type and geographic location. Broad asset classes of alternative investments include private equity funds, direct investments of equity or debt in privately held companies, mezzanine debt, distressed debt, collateralized debt obligations, hedge funds, and venture capital. Energy sector investments represent the largest single economic sector allocation within the alternative investment portfolio. Essentially all of the DPFRS alternative investment portfolio is located in the United States.

Approximately 75 percent of the alternative investment portfolio consists of core investments with the balance consisting of non-core investments. Core investments are those which are either absolute return strategies or whose return is primarily derived from current income. Non-core investments are those whose return is primarily derived from capital gains.

Broad categories of alternative investments and their relative allocation within the alternative investment portfolio are shown below:

Private equity	25%
Venture capital	2%
Absolute return strategies	44%
Structured credit, distressed, and mezzanine debt	15%
Business loans	2%
Other	12%

The DPFRS alternative investment composite return was (17.4) percent. This sizeable negative return is attributable to the recognition of losses totaling $83 million during the year on defaulted and non-performing alternative investments.

Cash

During the current year, DPFRS paid out approximately $254 million in benefits to its members. This relatively high level of benefit payments necessitates maintaining relatively high cash balances at all times. Currently, the DPFRS target asset allocation for cash is 1.5 percent of assets. The Board has a policy of maintaining not less than $50 million of cash reserves at all times.

DPFRS manages its own money market fund to invest not only the cash needed to pay the benefits and expenses of the System but also the cash balances which accumulate in the separately managed accounts. The money market fund provides the System with daily liquidity and supports unlimited deposits and check writing. All cash receipts, disbursements, and movements, as well as the settlements of purchases and sales of securities, are cleared through the money market fund. Accrued interest is calculated and distributed monthly based upon the average daily cash balance.

The DPFRS cash composite return for the year was 4.0 percent. This return ranked just below the median and out-performed its benchmark three-month U.S. Treasury bills (3.6 percent) by 40 basis points. The relative over-weight to asset-backed securities hurt performance as spreads widened and prices declined in the last quarter of the year. These price declines should be recouped in the following year as the securities approach maturity.

Returns from cash on an absolute basis have been constrained since 2001 by Federal Reserve Board policy of maintaining relatively low levels of short-term interest rates coupled with a flat and, at times, inverted yield curve. The Board expects the current relatively low levels of interest rates and flat yield curve to continue indefinitely. Cash balances are being maintained as close to the minimum as practical.

Liabilities

Liabilities shown in the financial statements consist of accounts payable and liabilities pursuant to securities lending. Accounts payable consist of those amounts payable for goods and services purchased to operate the System plus the trade settlement amount for securities purchases having a settlement date which occurred after the fiscal year end. Liabilities arising from the System's securities lending program are described in the following section.

Securities Lending

The System participates in a securities lending program. The master securities custodian acts as the exclusive agent of the System. The agent fully indemnifies the System against borrower default in compliance with state statutes. At year end, the market value of securities on loan was approximately $920 million.

When a security is placed on loan, the System receives cash collateral in an amount not less than 102 percent of the market value of the securities loaned. Loans are marked-to-market daily. Cash collateral is invested by the agent in a separately managed account. Borrowers receive a daily interest rebate on the cash collateral provided to the agent. Earnings from securities lending is the difference or spread between the earnings on the cash collateral and the interest rebate paid to the borrower.

The market value of the collateral invested is carried as an asset and the amount of collateral repayable to the borrower upon return of the securities from loan is carried as a liability in the financial statements. Investments are high quality fixed income and either floating rate or very short-term fixed rate instruments. Minimum credit quality is A1/P1. Accordingly, the carrying values of the securities lending assets and liabilities are equal, plus or minus a diminimis amount.

After the close of the fiscal year, Lehman Brothers filed for bankruptcy protection. At June 30, 2008, the System owned in its securities lending collateral reinvestment account $20 million cost basis of Lehman senior unsecured notes. These securities have since traded below 25 cents on the dollar. Realized losses will not be determinable until the completion of bankruptcy proceedings. The securities lending and collateral management agent has offered to cover some of the potential losses attributable to these securities.

Police and Fire Retirement System of the City of Detroit

Statement of Plan Net Assets
June 30, 2008
(with comparative totals for June 30, 2007)

	2008	2007
Assets		
Cash (Note 3)	$ -	$ 5,943,198
Investments - At fair value (Note 3):		
Short-term investments	79,611,369	102,040,280
Stocks	1,892,223,470	2,475,953,352
Bonds	749,121,559	789,229,816
Mortgage-backed securities	124,087,556	160,870,540
Mortgage and construction loans	191,379,256	109,927,167
Equity interest in real estate	462,270,219	192,057,840
Real estate investment trusts held by custodian	32,853,730	49,730,270
Pooled investments	289,404,783	472,828,216
Private placements	71,379,481	47,929,308
Accrued investment income	19,973,611	21,895,985
Contributions receivable	98,537,300	57,423,365
Receivables from investment sales	61,582,557	27,609,212
Other accounts receivable	632,428	11,944,215
Capital assets (Note 1)	2,194,751	422,237
Cash and investments held as collateral for securities lending (Note 3):		
Asset-backed securities	149,248,286	302,895,918
Bank notes	134,600,000	125,600,000
Certificates of deposit floating rate	149,983,141	219,933,809
Money market	179,650,000	145,326,000
U.S. corporate floating rate	303,970,822	292,421,537
Total assets	4,992,704,319	5,611,982,265
Liabilities		
Payables for investment purchases	72,428,311	31,435,872
Claims payable to retirees and beneficiaries	7,482,067	6,405,458
Other liabilities	20,692,958	6,613,770
Amounts due broker under securities lending agreement (Note 3)	917,452,249	1,086,177,264
Total liabilities	1,018,055,585	1,130,632,364
Net Assets Held in Trust for Pension Benefits (a schedule of analysis of funding progress is presented in the required supplemental information)	**$ 3,974,648,734**	**$ 4,481,349,901**

Statement of Changes in Plan Net Assets
Year Ended June 30, 2008
(with comparative totals for the year ended June 30, 2007)

	2008	2007
Additions		
Investment income (loss):		
Interest and dividend income	$ 152,745,999	$ 172,251,954
Net (depreciation) appreciation in fair value	(440,972,512)	484,214,184
Investment expense	(17,430,166)	(15,741,914)
Securities lending income	5,605,874	3,101,266
Other income	1,708	375,849
Net investment (loss) income	(300,049,097)	644,201,339
Contributions:		
Employee	10,299,360	10,043,736
Employer	41,113,934	57,423,366
Total additions	(248,635,803)	711,668,441
Deductions		
Retirees' pension and annuity benefits	231,623,462	225,249,848
Member refunds and withdrawals	22,304,141	36,708,695
General and administrative expenses	4,033,993	3,642,595
Depreciation expense	103,768	101,630
Total deductions	258,065,364	265,702,768
Net (Decrease) Increase in Net Assets Held in Trust for Pension Benefits	(506,701,167)	445,965,673
Net Assets Held in Trust for Pension Benefits - Beginning of year	4,481,349,901	4,035,384,228
Net Assets Held in Trust for Pension Benefits - End of year	**$ 3,974,648,734**	**$ 4,481,349,901**

Note 1 - Summary of Significant Accounting Policies

The City of Detroit (the "City") sponsors the contributory single-employer retirement plan for the Police and Fire Retirement System of the City of Detroit (the "System"). The System, which is administered by the System's board of trustees, is composed of a defined benefit component and a defined contribution component. The plans provide retirement, disability, and survivor benefits to plan members and beneficiaries. The Police and Fire Retirement System of the City of Detroit is a separate and independent trust qualified under applicable provisions of the Internal Revenue Code and is an independent entity (separate and distinct from the employer/plan sponsor) as required by (1) state law and (2) Internal Revenue Code provisions setting forth qualified plan status. The trustees of the plan have a fiduciary obligation and legal liability for any violations of fiduciary duties as independent trustees.

Reporting Entity - The financial statements of the System are also included in the combined financial statements of the City of Detroit as pension trust funds. The assets of the pension trust funds include no securities of or loans to the City or any other related party.

Basis of Accounting - The Police and Fire Retirement System of the City of Detroit's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Methods Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments. The fair value of real estate investments is based on periodic independent appraisals. Investments that do not have an established market value are reported at estimated fair value as determined by the System's management. Approximately 25 percent of the System's assets are not publicly traded and, therefore, do not always have a readily determinable market value.

Capital Assets - Capital assets for the System represent office equipment and furniture. Depreciation expense is calculated by allocating the net cost of the assets over their estimated useful lives.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure.

Note 2 - Plan Description and Contribution Information

At June 30, 2008, the membership of the defined benefit plan and the defined contribution plan consisted of the following:

	Defined Benefit Plan	Defined Contribution Plan
Retirees and beneficiaries receiving pension benefits	8,510	1,045
Terminated plan members entitled to but not yet receiving benefits	24	232
Active plan members	4,179	3,878

Plan Description - The System provides retirement benefits, as well as survivor and disability benefits. Employees may receive cost of living adjustments as a percentage of their base amounts, pursuant to the collective bargaining agreement in effect at their date of retirement. The obligation to contribute to and maintain the System was established by City Charter and negotiation with the employees' collective bargaining unit.

Contributions - The City's policy is to fund normal costs and amortization of prior service costs. The City is required to contribute at an actuarially determined rate. Administrative costs are financed through investment earnings. The contribution rate calculated by the actuary for 2007-2008 and 2006-2007 was 25.09 percent and 25.52 percent, respectively, of active annual payroll. Contributions from the employer were $41,113,934 and $57,423,366 for the years ended June 30, 2008 and 2007, respectively. However, for the year ended June 30, 2008, the System was actuarially required to pay $58,934,636, but the System gave the City a credit to reduce the City's contribution. In addition to this contribution amount for year ended June 30, 2008, an additional $34,074,039 is being funded from the use of pension obligation certificate proceeds received during 2005. The System's actuary has computed the rate used to calculate the amount of money that is funded by certificate proceeds. The amount is funded by transfers from the Accrued Liability Reserve Fund to the Pension Reserve Fund.

Note 2 - Plan Description and Contribution Information (Continued)

Employees are required to make contributions toward annuity savings in the amount of 5 percent of base compensation until eligibility for retirement is reached. Contributions from employees totaled $10,299,360 and $10,043,736 for the years ended June 30, 2008 and 2007, respectively. The contribution requirements of plan members and the City of Detroit are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions.

Annual Pension Costs - The annual contribution for the year ended June 30, 2008 was $58,934,636. The annual contribution was determined as part of an actuarial valuation at June 30, 2006, using the entry age cost method. Significant actuarial assumptions used include (a) a 7.8 percent investment rate of return, (b) projected salary increases of 4.8 percent per year, (c) additional salary increases of 1 percent to 6 percent per year based on merit and/or longevity, and (d) cost of living adjustments of 2.25 percent per year. Both (a) and (b) are determined using techniques that smooth the effects of short-term volatility over a three-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 28 years.

Funded Status and Funding Progress - As of June 30, 2007, the most recent actuarial valuation date, the plan was 110.5 percent funded. The actuarial accrued liability for benefits was $3,896,814,229 and the actuarial value of assets was $4,307,183,758, resulting in overfunding of $410,369,529. The covered payroll (annual payroll for active employees covered by the plan) was $230,173,964.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Three-year trend information as of June 30 is as follows:

	Fiscal Year Ended June 30		
	2007	2007	2008
Annual pension costs	$ 57,807,332	$57,423,366	$58,934,636
Percentage of APC contributed	100%	100%	100%
Net pension obligation	$ -	$ -	$ -

See Note 4 for disclosure of required reserves.

Note 3 - Deposits and Investments

The System is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997 and has authorized the investments according to Michigan Public Act 314. The System's deposits and investment policies are in accordance with statutory authority other than real estate asset balances being in excess of statutory limits by approximately 2 percent.

Declines in Investment Values - Subsequent to year end, the fair value of the System's investment portfolio declined by approximately $718,000,000, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. The System had no bank deposits (certificates of deposit, checking, and savings accounts) at June 30, 2008, and had bank deposits (certificates of deposit, checking, and savings accounts) of $5,869,741 at June 30, 2007 that were uninsured and uncollateralized. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy does not restrict investment maturities.

Note 3 - Deposits and Investments (Continued)

At June 30, 2008, the average maturities of investments are as follows:

Investment Type	Fair Value ($000)	Investment Maturities (in years) Less than 1	1-5	6-10	More than 10
Pooled and mutual funds**	$ 171,177	$ -	$ -	$ -	$ -
Other governmental fixed income	134,398	8,948	82,276	26,036	17,138
Government assets and mortgage backed	124,645	17	587	3,975	120,066
Corporate fixed income	565,528	10,509	256,160	163,770	135,089
Other fixed income	70,716	771	27,786	33,017	9,142
Convertible investments	19,657	-	5,164	1,367	13,126
Mortgages	107,386	4,000	94,659	-	8,727
Construction loans	83,993	67,647	16,346	-	-
Total	$ 1,277,500	$ 91,892	$ 482,978	$ 228,165	$ 303,288

**Not all pooled and mutual funds are subject to interest rate risk.

At June 30, 2007, the average maturities of investments are as follows:

Investment Type	Fair Value ($000)	Investment Maturities (in years) Less than 1	1-5	6-10	More than 10
U.S. government	$ 137,021	$ 24,464	$ 46,135	$ 49,040	$ 17,382
Government assets and mortgage backed	161,592	-	882	3,293	157,417
Corporate	578,164	24,671	211,211	204,164	138,118
Other fixed income	101,227	4,694	21,655	53,930	20,948
Convertible bonds	16,098	235	1,988	2,062	11,813
Pooled and mutual funds**	192,720	2	-	-	-
Certificates of deposit	3	3	-	-	-
Treasury bills	99	99	-	-	-
Government agencies	6,593	6,593	-	-	-
Mortgages	20,390	-	3,000	8,405	8,985
Construction loans	89,537	63,890	25,647	-	-
Total	$ 1,303,444	$ 124,651	$ 310,518	$ 320,894	$ 354,663

**Not all pooled and mutual funds are subject to interest rate risk.

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System has no investment policy that would further limit its investment choices.

As of June 30, 2008, the credit quality ratings of debt securities (other than the U.S. government) as rated by S&P are as follows:

Investment Type and Fair Value ($000)	AAA	AA	A	BBB	BB
Pooled and mutual funds	$ 6,924	$ -	$ -	$ -	$ -
Government fixed income	119,799	-	-	-	381
Government assets and mortgage backed	11,769	-	-	-	-
Corporate fixed income	34,717	36,185	124,306	108,884	77,550
Other fixed income	437	3,127	8,078	12,639	14,727
Convertible investments	405	1,164	3,415	5,724	2,083
Mortgages	-	-	-	-	-
Construction loans	-	-	-	-	-
Total	$ 174,051	$ 40,476	$ 135,799	$ 127,247	$ 94,741

Investment Type and Fair Value ($000)	B	CCC and Below	NR
Pooled and mutual funds	$ -	$ -	$ 164,253
Government fixed income	-	-	-
Government assets and mortgage backed	-	-	-
Corporate fixed income	122,587	20,108	40,542
Other fixed income	22,060	6,770	2,879
Convertible investments	2,821	301	3,746
Mortgages	-	-	107,386
Construction loans	-	-	83,993
Total	$ 147,468	$ 27,179	$ 402,799

Note 3 - Deposits and Investments (Continued)

As of June 30, 2007, the credit quality ratings of debt securities (other than the U.S. government) as rated by S&P are as follows:

Investment Type and Fair Value ($000)	AAA	AA	A	BBB	BB
U.S. government	$ 109,787	$ -	$ 308	$ -	$ 384
Mortgage backed	7,151	-	-	-	-
Collateralized mortgage obligations	2,338	-	-	-	-
Corporate	21,501	42,286	113,343	127,575	65,755
Other fixed income	466	3,513	18,032	10,562	13,462
Convertible bonds	383	761	3,953	3,582	2,274
Pooled and mutual funds	31,311	-	-	-	-
Certificates of deposit	-	-	-	-	-
Government agencies	-	-	-	-	-
Mortgages	-	-	-	-	-
Construction loans	-	-	-	-	-
Total	$ 172,937	$ 46,560	$ 135,636	$ 141,719	$ 81,875

Investment Type and Fair Value ($000)	B	CCC and Below	A-1	NR
U.S. government	$ 315	$ -	$ -	$ -
Corporate	138,466	28,366	-	42,483
Other fixed income	34,451	12,336	-	5,816
Convertible bonds	3,153	273	-	2,030
Pooled and mutual funds	-	-	-	161,409
Certificates of deposit	-	-	-	3
Government agencies	-	-	6,593	-
Mortgages	-	-	-	20,390
Construction loans	-	-	-	89,536
Total	$ 176,385	$ 40,975	$ 6,593	$ 321,667

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The System does not restrict the amount of investments in foreign currency.

Note 3 - Deposits and Investments (Continued)

At June 30, 2008, the following securities are subject to foreign currency risk (in $000):

	Fixed Income	Equity	Forward Contracts Unrealized Gain (Loss)	Cash
Australian dollar	$ -	$ 24,947	$ 548	$ 120
Brazilian real	-	661	-	-
British pound sterling	-	103,168	(11,213)	14
Canadian dollar	-	12,110	6,636	52
Danish krone	-	4,899	-	-
Euro currency	-	165,819	(890)	6,428
Hong Kong dollar	-	6,634	-	385
Japanese yen	2,681	65,646	(4,547)	1,038
Mexican nuevo peso	-	281	-	-
New Taiwan dollar	-	1,097	-	308
New Zealand dollar	-	590	-	8
Norwegian krone	-	10,100	(2,197)	13
Singapore dollar	-	3,837	-	167
South Korean won	-	416	-	-
Swedish krona	-	6,248	3,083	1
Swiss franc	-	27,285	1,741	(121)
Total	$ 2,681	$ 433,738	$ (6,839)	$ 8,413

Note 3 - Deposits and Investments (Continued)

At June 30, 2007, the following securities are subject to foreign currency risk (in $000):

	Fixed Income	Equity	Forward Contracts Unrealized Gain (Loss)	Cash
Australian dollar	$ -	$ 19,511	$ 2,839	$ (8)
Brazilian real	-	-	-	181
British pound sterling	-	126,259	11,058	(741)
Canadian dollar	-	6,619	12,061	74
Danish krone	-	4,782	-	182
Euro currency	-	252,247	(2,417)	5,360
Hong Kong dollar	-	8,328	-	144
Japanese yen	4,442	90,980	(28,283)	1,082
Mexican nuevo peso	-	616	-	3
New Taiwan dollar	-	586	-	35
New Zealand dollar	-	4,032	-	3
Norwegian krone	-	16,073	(4,611)	56
Renminbi yuan	-	331	-	-
Singapore dollar	-	2,679	-	145
South Korean won	-	1,896	-	(13)
Swedish krona	-	17,851	-	84
Swiss franc	-	29,852	-	17
Total	$ 4,442	$ 582,642	$ (9,353)	$ 6,604

As permitted by state statutes and under the provisions of a securities lending authorization agreement, the System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. The custodial bank does not have the ability to pledge or sell collateral securities unless the borrower defaults. Borrowers are required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned securities.

The System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

Note 3 - Deposits and Investments (Continued)

The System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested together with the cash collateral of other lenders in an investment pool. The average duration of this investment pool as of June 30, 2008 and 2007 was 26 and 28 days, respectively. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2008 and 2007, the System had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the System as of June 30, 2008 was $917,452,249 and $885,624,533, respectively.

The following represents the balances relating to the securities lending transactions as of June 30, 2008; investments are reported at fair value:

Securities Lent	Underlying Securities
U.S. government and agencies	$ 74,151,224
U.S. corporate fixed income	87,335,451
U.S. equities	698,262,242
Non-U.S. equities	25,875,616
Total	$ 885,624,533

The fair market value of collateral of the securities lending at June 30, 2008 was $917,452,249. The investments were in asset-backed securities, bank notes, certificate of deposits (floating rate), money markets, and U.S. corporate securities (floating rate). At June 30, 2008, the System had approximately $20,000,000 of collateral in unsecured notes with Lehman Brothers under the securities lending agreement. Subsequent to year end, Lehman Brothers applied for bankruptcy. At this date, the approximate loss on the transaction is unknown as the case is now in bankruptcy court. The securities lending agent has agreed to make up a fraction of the losses after the decision of bankruptcy court.

Note 3 - Deposits and Investments (Continued)

The following represents the balances relating to the securities lending transactions as of June 30, 2007; investments are reported at fair value:

Securities Lent	Underlying Securities
U.S. government and agencies	$ 120,780,763
U.S. corporate fixed income	97,923,484
U.S. equities	807,417,045
Non-U.S. equities	31,058,839
Total	$1,057,180,131

The fair market value of collateral of the securities lending at June 30, 2007 was $1,086,177,264. The investments were in asset-backed securities, bank notes, certificate of deposits (floating rate), mutual funds, and U.S. corporate securities (floating rate).

Note 4 - Reserves

State law requires employee contributions to be segregated. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. As of June 30, 2008 and 2007, the System's reserves have been fully funded as follows:

	2008	2007
Reserved for employee contributions	$ 267,852,883	$ 260,925,845
Reserved for retired employees	2,692,537,271	2,689,100,297

A statement of changes in plan net assets by fund is included in the other supplemental information.

Note 5 - Pension Obligation Certificates

In June 2005, the City of Detroit issued $1,440,000,000 of pension obligation certificates to provide funding for the unfunded actuarially accrued liability (UAAL) in both the General Employees' Retirement System of the City of Detroit and the Police and Fire Retirement System of the City of Detroit, which existed at June 30, 2003. Any future UAAL that may arise will continue to be paid by the City, as well as the annual normal cost. The proceeds of the pension obligation certificates were deposited into the System and are accounted for in the Accrued Liability Fund (Pension Obligation Certificate) Reserve. Approximately $740,000,000 was deposited into the General Employees' Retirement System of the City of Detroit and approximately $630,000,000 was deposited into the Police and Fire Retirement System of the City of Detroit, net of issuance costs and premiums. On an annual basis, funds will be transferred from the Accrued Liability Fund Reserve to the Pension Accumulation Reserve on the advice of the actuary. The Accrued Liability Fund was credited with investment earnings commensurate with the overall earnings of the System.

Note 6 - Credit Enhancement Agreements

During the year, the System had credit enhancement agreements totaling $32,570,000. In exchange for the credit enhancement, the System receives fees from the companies to whom the enhancement agreements have been given.

In addition, subsequent to year end, the System has pledged as collateral approximately $106 million to secure the System's obligation under an additional credit enhancement agreement.

Required Supplemental Information

Required Supplemental Information
Schedule of Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/02	$ 3,635,106,581	$ 3,523,446,635	$ (111,659,946)	103.2	$ 248,663,133	-
06/30/03	3,205,516,657	3,721,593,210	516,076,553	86.1	248,681,461	207.5
06/30/04	3,074,516,589	3,857,493,282	782,976,693	79.7	258,699,581	302.7
06/30/05	3,757,894,417	3,780,447,414	22,552,997	99.4	250,491,872	9.0
06/30/06	3,980,254,576	3,808,952,741	(171,301,835)	104.5	228,140,160	-
06/30/07	4,307,183,758	3,896,814,229	(410,369,529)	110.5	230,173,964	-

Required Supplemental Information
Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Contribution Made	Percentage Contributed	Transfer from Accrued Liability Reserve *
2003	$ 66,843,029	$ 66,843,029	100	$ -
2004	69,475,202	69,475,202	100	-
2005	51,604,596	51,604,596	100	47,237,665
2006	57,807,332	57,807,332	100	29,859,352
2007	57,423,366	57,423,366	100	32,935,982
2008 **	58,934,636	41,113,934	70	34,074,039

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2007, the latest actuarial valuation, is as follows:

Valuation date	June 30, 2007
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	28 years closed
Asset valuation method	Three-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.8%
Projected salary increases	5.8%-10.8%
Includes inflation at	4.8%
Cost of living adjustments	2.25%

* In accordance with the Pension Obligation Certificate requirements, annual transfers are made from the Accrued Liability Fund to the Pension Accumulation Reserve for the amortization of the unfunded liability that existed at the date the Certificates were issued.

** For the year ended June 30, 2008, the System gave a credit to the City for the current year contributions.

Other Supplemental Information

Annuity Savings Fund - This fund represents cumulative required and voluntary contributions made by the active employees plus accumulated interest.

Annuity Reserve Fund - Transfers are made from the Annuity Savings Fund into the Annuity Reserve Fund when an employee retires, becomes disabled, or if a surviving spouse elects an annuity rather than a lump-sum payout of accumulated employee contributions.

Both annuity funds are referred to as defined contribution plans.

Market Stabilization Fund - This fund represents designations from the plans' investment income (loss) to be used to cushion the market value adjustments within the other funds. The board of trustees authorized the creation of this fund, and the reserve amounts are calculated using a three-year average method.

Accrued Liability Reserve Fund - This fund originated during June 2005 when the City issued pension obligation certificates to fund the unfunded actuarial accrued liability that existed at June 30, 2003 (subject UAAL). On an annual basis, the actuary will inform the System of the amount to transfer from the Accrued Liability Reserve to the Pension Accumulation Fund in lieu of contributions from the City for the subject UAAL.

Survivor Benefits Fund - This fund is used to accumulate the DPFRS employee and City contributions for certain survivor benefits from which the related benefits are paid.

Pension Accumulation Fund - This fund represents accumulated City contributions to the System for the payment of pensions and other benefits to future retirees. Additionally, pre-employment military service credit contributions are captured in this fund.

Pension Reserve Fund - This fund represents funded pension benefits available for retired members and is funded by actuarially determined transfers from the Pension Accumulation Fund.

	Annuity Reserves		
	Annuity Savings Fund	Annuity Reserve Fund	Market Stabilization Fund
Additions			
Net investment income (loss)	$ 18,994,491	$ 872,445	$ (615,729,634)
Contributions:			
Employee	10,177,691	-	-
Employer	-	-	-
Total additions	29,172,182	872,445	(615,729,634)
Deductions			
Retirees' pension and annuity benefits	-	832,126	-
General and administrative expenses	-	-	-
Depreciation expense	-	-	-
Member refunds and withdrawals	22,304,141	-	-
Total deductions	22,304,141	832,126	-
Net Additions (Deductions) - Before transfers	6,868,041	40,319	(615,729,634)
Transfers - Net	58,998	3,356,661	-
Net Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	6,927,039	3,396,980	(615,729,634)
Net Assets Held in Trust for Pension Benefits - Beginning of year	260,925,844	13,468,638	174,188,153
Net Assets Held in Trust for Pension Benefits - End of year	**$267,852,883**	**$16,865,618**	**$ (441,541,481)**

Other Supplemental Information
Statement of Changes in Plan Net Assets by Fund
Year Ended June 30, 2008
(with comparative totals for the year ended June 30, 2007)

Accrued Liability Reserve Fund	Pension Reserves: Survivor Benefits Fund	Pension Reserves: Pension Accumulation Fund	Pension Reserves: Pension Reserve Fund	Total 2008	Total 2007
$ 78,937,211	$ 1,020,315	$ 7,155,281	$ 208,700,794	$ (300,049,097)	$ 644,201,339
-	-	121,669	-	10,299,360	10,043,736
-	-	41,113,934	-	41,113,934	57,423,366
78,937,211	1,020,315	48,390,884	208,700,794	(248,635,803)	711,668,441
-	4,079,015	-	226,712,321	231,623,462	225,249,848
-	-	4,033,993	-	4,033,993	3,642,595
-	-	103,768	-	103,768	101,630
-	-	-	-	22,304,141	36,708,695
-	4,079,015	4,137,761	226,712,321	258,065,364	265,702,768
78,937,211	(3,058,700)	44,253,123	(18,011,527)	(506,701,167)	445,965,673
(34,074,039)	(1,020,315)	13,627,174	18,051,521	-	-
44,863,172	(4,079,015)	57,880,297	39,994	(506,701,167)	445,965,673
651,040,589	16,454,857	689,640,161	2,675,631,659	4,481,349,901	4,035,384,228
$695,903,761	**$ 12,375,842**	**$ 747,520,458**	**$ 2,675,671,653**	**$ 3,974,648,734**	**$ 4,481,349,901**

Police and Fire Retirement System of the City of Detroit

Report to the Board of Trustees

June 30, 2008

plante moran

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

To the Board of Trustees
Police and Fire Retirement System
of the City of Detroit

We have recently completed our audit of the basic financial statements of the Police and Fire Retirement System of the City of Detroit (the "Retirement System") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, and recommendations and informational comments which impact the Retirement System:

We are grateful for the opportunity to be of service to the Retirement System. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

December 11, 2008

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Report on Internal Control

December 11, 2008

To the Board of Trustees
Police and Fire Retirement System
of the City of Detroit

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Retirement System's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Police and Fire Retirement System of the City of Detroit as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Retirement System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Retirement System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Retirement System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.

To the Board of Trustees
Police and Fire Retirement System
of the City of Detroit

December 11, 2008

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

- The Retirement System invests in various types of nonpublicly traded investments that are difficult to value as the values for these investments are not readily available from third-party sources. Currently, the value of a significant portion of the investments is per confirmations received from companies in which the Retirement System is invested. We recommend that the Retirement System implement a process by which independent annual audited financial statements are obtained and the value of the investments is analyzed and recorded based on the audited balances.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiency noted above constitutes a material weakness.

This communication is intended solely for the information and use of management, the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

Beth Bialy

Beth A. Bialy

Wendy Trumbull

Wendy N. Trumbull

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Results of the Audit

December 11, 2008

To the Board of Trustees
Police and Fire Retirement System
of the City of Detroit

We have audited the financial statements of the Police and Fire Retirement System of the City of Detroit for the year ended June 30, 2008 and have issued our report thereon dated December 11, 2008. Professional standards require that we provide you with the following information related to our audit.

<u>Our Responsibility Under U.S. Generally Accepted Auditing Standards</u>

As stated in our engagement letter dated September 10, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Police and Fire Retirement System of the City of Detroit. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

<u>Planned Scope and Timing of the Audit</u>

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 18, 2008.

To the Board of Trustees
Police and Fire Retirement System
of the City of Detroit

December 11, 2008

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Retirement System are described in Note 1 to the financial statements.

We noted no transactions entered into by the Retirement System during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The valuation of nonpublicly traded investments constitutes a particularly sensitive estimate affecting the financial statements. Management uses various means to value the investments including confirmations from the investment managers, periodic appraisals, guidance from real estate advisors, etc.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures relate to the valuation of nonpublicly traded investments.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit, other than management's rescheduling of the audit to a later time frame than originally planned due to an unplanned building closure.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

To the Board of Trustees
Police and Fire Retirement System
of the City of Detroit

December 11, 2008

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated December 11, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Retirement System's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the Retirement System, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Retirement System, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Retirement System's auditors.

During the audit, it became apparent that the Retirement System had exceeded the Public Act 314 of 1965 limitation for real estate investments. These types of investments are limited to 10 percent. The Retirement System's management provided us with a schedule that indicated these types of investments were in excess of 12 percent.

Other Information in Documents Containing Audited Financial Statements

Our responsibility relates to the Retirement System's financial statements and other information as identified in the auditor's report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents.

To the Board of Trustees
Police and Fire Retirement System
of the City of Detroit

December 11, 2008

This information is intended solely for the use of board of trustees and management of the Police and Fire Retirement System of the City of Detroit and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

Beth Bialy

Beth A. Bialy

Wendy Trumbull

Wendy N. Trumbull

To the Board of Trustees
Police and Fire Retirement System
of the City of Detroit

December 11, 2008

Client: **City of Detroit Police & Fire Retirement System**

Y/E: **June 30, 2008**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Additions	Deductions	Change in Net Assets
KNOWN MISSTATEMENTS:							
A1							
A2							
ESTIMATE ADJUSTMENTS:							
B1	To reduce the value of the Red River construction loan	$ (22,500,000)				$ 22,500,000	$ (22,500,000)
B2	To write down the Romulus Disposal Note	(10,000,000)				10,000,000	(10,000,000)
B3	To write down Tradewinds	(13,500,000)				13,500,000	(13,500,000)
B4	To write down Midland Multifamily Equity REIT	(26,229,810)				26,229,810	(26,229,810)
IMPLIED ADJUSTMENTS:							
C1	To extrapolate error on construction loans	(10,481,591)				10,481,591	(10,481,591)
		-	$ -	$ -	$ -	-	-
	Total	**$ (82,711,401)**	**$ -**	**$ -**	**$ -**	**$ 82,711,401**	**$ (82,711,401)**

Other Recommendations/Informational

Bank Reconciliations - During the audit, we noted that monthly bank reconciliations were not being reviewed. We recommend that monthly bank reconciliations and accompanying journal entries are reviewed by an individual who does not prepare the reconciliations. This review process should be evidenced by a signature.

Nonpublicly Traded Investments - The Retirement System invests in various types of nonpublicly traded investments. By their nature, nonpublicly traded investments oftentimes have a higher level of risk. The Retirement System uses the specific identification method of writing down nonpublicly traded investments after they are known to be uncollectible. We suggest that the Retirement System consider recording an overall market value allowance as an estimate of nonpublicly traded investments that may eventually be deemed uncollectible.

Related to the above comment, nonpublicly traded investments are riskier by nature, and as such, are limited by state law. Some nonpublicly traded investments will provide an outstanding return and others will not materialize as had been hoped and may need to ultimately be written off. As the Retirement System continues to evaluate various nonpublicly traded investment opportunities, the Retirement System should consider tracking the performance of the consultants that are hired to perform due diligence as a means to evaluate the viability of future proposed investments.

Census Information Remitted to the Actuary - During the audit, we noted that census information is accumulated and remitted to the actuary but noted that this information is not reviewed on an overall or test basis. We noted that the terminated employees included in the data included all employees (full-time and temporary) who were terminated during the year. The data improperly included terminated employees who were not eligible for benefit payments. This error could potentially impact the calculated future pension liability and the required contribution per the actuary. We recommend that the Retirement System implement a process by which an individual who does not accumulate the information reviews the data for accuracy prior to remitting to the actuary.

Bank of New York SAS 70 - During the audit, we noted that the Retirement System receives SAS 70 reports from the Bank of New York. We recommend that the SAS 70 be reviewed as these reports are based on the controls implemented by the bank related to recording and safe-keeping of investments in their custody.

We would like to thank the board for the opportunity to serve as auditors for the Retirement System. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

Plante & Moran, PLLC

Beth A. Bialy

Wendy N. Trumbull